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International Trade Commission Hearing on Canadian Grain (1)

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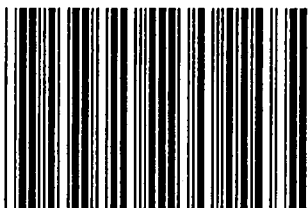
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BAUCUS

United States Senate

WASHINGTON, DC 20510

Remarks of Senator Max Baucus International Trade Commission Hearing On Canadian Grain

April 8, 1994

Good morning, Commissioners, and welcome to Montana. I thank you for holding this hearing, and I am very pleased that you took my suggestion and came out here to see the problem for yourselves. I believe you'll agree it looks a little different here in Shelby than it does in an office back in Washington. I also want to thank the people from all over the state who have come to Shelby today for this event.

We are here for a simple reason. It is not to worry about our bilateral trade agreements with Canada. It is not to reflect on whether import restraints might affect or be affected by the GATT, or on the merits of American farm programs and trade laws. And it is not to determine what Canada might do if we restrict grain imports. We are here to determine whether the wheat Canada is shipping into the U.S. affects the operation of our farm program. I think you'll find that the farmers here today can explain it pretty easily.

THE SITUATION IN TOOLE COUNTY

This is a national problem. But the farmers here in Toole County suffer from it as much or more than anybody. Let me explain what they have endured in the past six months alone.

In the first week of November, the Administration agreed to my proposal of a Section 22 investigation of Canadian grain imports. At that time, eighty-three Canadian grain trucks a week were clearing customs at Sweetgrass, Toole County's main port of entry, which lies about thirty-five miles north of here.

By December, that had risen to 149 trucks per week. In January it was 223 per week. Hank Zell's son had to wait three hours behind a line of Canadian trucks just to deliver his grain to the local elevator.

At that point, the farmers of Toole County decided they could wait no longer. To bring the government's attention to the problem, they blockaded the grain elevators you probably saw on the way in this morning. Herb Karst, from whom you'll hear a little later, spoke for pretty much everyone in Montana:

"We're just tired of taking it and taking it and taking it, and we don't feel like we can take it any longer. This is not fair trade."

The elevator blockade here was a last resort, after years of patience. It was just the first public demonstration of the desperation the flood of subsidized grain has caused on the Great Plains. The unrest here spread to Harlem, to Conrad and Great Falls. There were rallies in North Dakota and South Dakota. The Harvest States Cooperative and the Peavey Company even shut down their Shelby elevators to show solidarity.

Since then, our farmers have received a lot of sympathy and kind words. Some of them met with Mike Espy at my office in Washington. But they have not gotten a solution. Since the protests in January, the number of grain trucks crossing the border at Sweetgrass has risen to more than three hundred a week.

What we need is not sympathy -- and as I will explain, what we are entitled to under the law -- is action.

NATIONAL SCOPE OF THE PROBLEM

Let us now move from Toole County to examine the national situation. In the 1991-92 marketing year, Canada exported 1.2 million metric tons of wheat to the United States. Last year, that grew to 1.9 million metric tons. This year, USDA projects that Canada will export 2.6 million tons.

Wheat farmers in Montana and the Dakotas are drowning in a Missouri River Flood of unfairly traded, subsidized wheat. As the events here last January showed, the problem has now reached what nuclear physicists call a "critical mass" -- the amount which causes an explosion. But it is not a new issue. It has been growing for years.

The Agriculture Department's Task Force report on Canadian grain imports, which you as Commissioners have had the rare privilege of reading, found earlier this year that these practices have resulted in \$600 million in additional deficiency payments -- that is, \$600 million in extra spending which we would have avoided without the Canadian wheat problem.

\$600 million is real money. But do not forget that this report was written in October. Given the vast increase in imports since then, the costs to the taxpayer are probably a great deal more.

EFFECT OF SUBSIDIZED IMPORTS ON TOOLE COUNTY

Why are we losing so much money? Under our farm program, we set a target price for grain. If the market price is lower than the target, the government makes up the

difference in "deficiency payments." As market prices approach the target price, the deficiency payments fall. Likewise, when market prices fall, deficiency payments rise.

The biggest single factor in setting the market price is the supply of grain. When we add in 2.6 million extra tons of Canadian grain, which due to subsidies and predatory pricing are already well below a normal market price, the price of grain here falls.

A related issue is the commodity loans which producers take as local cash sale prices fall. These loans mature in 9 months. If at that time prices are below the loan price, producers forfeit the grain to the government. The government must store the forfeited grain. If storage space is not available, USDA may find itself purchasing storage from the producer who has just forfeited their grain. This will reduce local prices even further, and thus raise deficiency payments even higher. And that increased cost to the taxpayer comes on top of storage fees for the grain as well. It is almost a ridiculous situation.

Once again, Toole County illustrates a national problem. Farmers here produced 4.9 million bushels of wheat in 1992. But Canada will ship nearly double that amount to the local elevators. Because of what's happened already, Toole County farmers now have 4.774 million bushels of wheat on loan -- essentially a full year's production. And that means next year, our producers will have to sell nearly two full crops on top of the exports from Canada.

CANADIAN GRAIN TRADE PRACTICES

Now, some will say that well, we have free trade with Canada, and some people get hurt in free trade. But the truth is, what we have in wheat is not free trade with Canada. The flood of imports is not a natural result of open trade -- it is the artificial and deliberate result of Canadian government policy. The problem springs from two basic causes.

First, the transportation subsidy. Canada pays for shipments of wheat from Canada to the United States and Mexico. The Canadian wheat farmer moves his crop from farm to market for nothing. Transport costs shift from Canada's producers to Canada's taxpayers, and Canadian grain gets a price advantage.

Second, the Canadian Wheat Board. Canada operates a government-backed monopoly state trading organization to control sales of wheat and other grains. The Board buys the entire Canadian crop, and markets it both at home and abroad. It is a secretive, nationalistic cabal, which harms foreign producers in two ways. It acts as a barrier to imports by refusing to buy U.S. grain. And it acts as a source of export subsidies, through predatory pricing in the United States and other markets.

Together, these policies create the problem -- Canada's combination of barriers to imports with subsidized, unfairly priced exports. The ideal solution is easy. Canada should eliminate the transportation subsidy and the Wheat Board. Then we can compete fairly.

But I think we all know that Canada will agree to no such thing unless it has to. The only way to get relief to our American farmers and get the message to Canada is to restrict Canadian imports.

NEED FOR SECTION 22 ACTION

That is how I see this issue as a matter of trade policy. But in fact, the trade policy aspect of the Canadian grain crisis is secondary. The main point is the legal question.

Section 22 states that if agricultural imports cause "material interference" with the operation of the American farm program, we should restrict those imports. It is a simple case, and the Commission's ruling should be a simple one.

You are asked to decide a very straightforward question. Do subsidized, unfairly priced Canadian grain imports materially interfere with the American farm program, or do they not? It should not take more than a few minutes -- whether by reading over the Agriculture Department's Task Force report on what these imports have done to the farm program, or by talking with the farmers here today -- to find that the answer is "yes." There is no gray area. There are no tricky questions of policy and statistics. Section 22 restrictions on Canadian grain are required now.

Finally, and I cannot emphasize this strongly enough, the Commission must decide quickly. This is a crisis, and it is getting worse every week. Montana farmers can't take this anymore. Section 22 action is the only approach we have left.

I thank you for giving me this opportunity to speak. And I thank you even more for listening to the farmers who are bearing the worst of this crisis. You have the power to bring it to an end, and I urge you to do so swiftly.